

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1709-02  
Bill No.: HB 771  
Subject: Agriculture and Animals; Taxation and Revenue - General; Taxation and Revenue  
- Income  
Type: Original  
Date: February 23, 2015

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Bill Summary: This proposal would provide an income tax exemption for payments from agricultural disaster programs.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Up to \$30,737,800)	(Up to \$15,300,000)	(Up to \$15,300,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Up to \$30,737,800)</b>	<b>(Up to \$15,300,000)</b>	<b>(Up to \$15,300,000)</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

**Oversight** was unable to receive agency responses in a timely manner due to the short fiscal note request time. Oversight has prepared this fiscal note with the best current information that we have, or with prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will prepare an updated fiscal note and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would reduce Total State Revenues (TSR) by \$15.3 million and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials noted this proposal would allow a taxpayer to deduct from Missouri adjusted gross income, any payments from any program that provides compensation to agricultural producers who have suffered losses due to a disaster, emergency, or decline in market price/value. BAP officials used data provided by the United States Department of Agriculture (USDA) to estimate this proposal would exempt as much as \$255.7 million in income from tax.

Since deductions do not reduce taxes on a dollar for dollar basis, BAP officials assume this exemption would reduce TSR by  $(\$255,700,000 \times 6\%) = \$15.3$  million. The proposal would allow the deduction for 2014; therefore, the impact in fiscal year 2016 could be as much as \$30.7 million. The annual revenue reduction could also vary in the future due to the impact of SB 509 (2014).

**Oversight** notes the BAP estimate is based on an assumption that all such payments would be subject to the maximum personal income tax rate of 6% for FY 2016 and FY 2017, and a potentially reduced rate for FY 2018. Oversight also notes the reduced rate for 2017 returns filed in FY 2018 is contingent on net general revenue collections exceeding a net general revenue collections threshold which may or may not occur. Finally, some of the payments may be received by individuals who would be taxed at a lower rate due to total taxable income less than \$9,000.

**Oversight** will include an estimated revenue reduction in this fiscal note based on the BAP response; Oversight will indicate an amount up to \$30.7 million in FY 2016, for 2014 amended returns and 2015 returns which would be filed in FY 2016, and an amount up to \$15.3 million for FY 2017 and FY 2018.

ASSUMPTION (continued)

Although officials from the **Office of the Secretary of State (SOS)** did not respond to our request for information, SOS officials responded as follows to similar proposals.

SOS officials assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be greater than our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Although officials from the **Department of Revenue (DOR)** did not respond to our request for information, DOR officials provided responses to proposals in the previous session which would create a new income tax exemption or change the amount of an exemption.

DOR officials assumed Personal Tax would require programming and form changes, and Collections and Tax Assistance (CATA) would have additional customer contacts due to the changes and adjustment notices. DOR officials assumed CATA would require two additional Tax Collection Technicians I for contacts on the delinquent and non-delinquent tax lines and one additional Revenue Processing Technician I for contacts to the field offices. Each technician would require CARES equipment and license.

DOR officials provided an estimate of the administrative cost to implement the proposal including three additional employees; the total including additional employees, benefits, equipment, and expense, was \$128,070 for FY 2015, \$124,065 for FY 2016, and \$125,354 for FY 2017.

ASSUMPTION (continued)

**Oversight** notes this proposal would change a limited number of computations on income tax returns and would not be expected to have a significant impact on the number of returns filed. Oversight notes a significantly high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal. Oversight assumes existing DOR staffing would be adequate to implement this proposal. If unanticipated additional costs are incurred or if multiple proposals are implemented that increase DOR costs or the workload for DOR employees, resources could be requested through the budget process.

**DOR** officials also provided an estimate of the IT cost to implement the proposal based on 504 hours of programming to make changes to DOR systems.

**Oversight** will include an estimate of the IT cost for DOR to implement this proposal based on the current state contract rate of \$75 for programming services.  
((504 hours x \$75 per hour) = \$37,800.)

Officials from the **Joint Committee on Administrative Rules** and the **Department of Agriculture** assume this proposal would not have a fiscal impact to their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Cost - DOR</u>			
Computer programming	(\$37,800)	\$0	\$0
<u>Revenue reduction</u>	(Up to	(Up to	(Up to
Tax exemption	<u>\$30,700,000)</u>	<u>\$15,300,000)</u>	<u>\$15,300,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(Up to <u>\$30,737,800)</u></b>	<b>(Up to <u>\$15,300,000)</u></b>	<b>(Up to <u>\$15,300,000)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

#### FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact on businesses involved in agriculture.

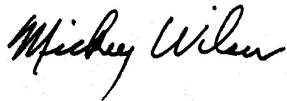
#### FISCAL DESCRIPTION

This proposal would provide an income tax exemption for payments in all tax years beginning on or after January 1, 2014 for income received as payment from any program which compensates agricultural producers who have suffered a loss as a result of a disaster, emergency, or decline in market prices or values.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Administrative Rules  
Office of Administration  
Division of Budget and Planning  
Department of Agriculture  
Office of the Secretary of State  
Department of Revenue



Mickey Wilson, CPA  
Director  
February 23, 2015

Ross Strobe  
Assistant Director  
February 23, 2015